RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038 | 26 Letters Per Year • $250 annually | www.dowtheoryletters.com

July 28, 1999 **LETTER 1283**

CURRENT PICTURE: On July 16 the Dow, the S&P, the Nasdaq and my Primary Trend Index (PTI) all hit record highs. Those were obvious positives for this market.

The negatives: the D-J Transportation Average has, so far, failed by a wide margin to confirm the new high in the Dow. All during 1998 and early '99 the Transports failed to confirm successive new highs in the Dow. But on May 3, 1999, the Transports finally rallied to a new high, thereby re-confirming the bull market. Now again the Transports have failed to confirm a new high in the Dow. Will the Transports advance to a new high and bail us out again? The market seldom bails you out in the same way twice.

Major negative -- we are currently experiencing the third **longest** period of price/breadth divergence (e.g., Dow vs. A-D ratio) in stock market history. The two previous longest divergences occurred in 1928-29 (16 months of divergence) and 1973-74 (20 months). Both periods led to disastrous bear markets. Current divergence -- 15 months as of July.

Conclusion: The primary trend is up and will continue up as long as the Dow and the Transports, **one or both,** hold above their June lows. The critical June lows were **10490.51** for the Dow and **3316.11** for the Transports. Mark those levels down.

BIG PICTURE: Sometimes, it pays to step back and review the big picture -- to try to see where the market is in the light of history. One helpful study is provided by Steve Leuthold in his *Perception for the Professional* report for July [(612)332-2202]. What Steve does is show where the Dow would be if it was to return (God forbid) to its historical medians -- medians based on the period of 1957 to date.

DJIA Now: 10971	Now	Historical Median	Market Level	From Here
Normalized "Adjusted EPS" P/E	27.4	16.4	6301	-43%
Non Normalized Operating EPS P/E	23.5	15.0	6988	-36
Dividend Yield	1.4	3.7	4110	-63
Price To Book (Adjusted)	4.1	1.7	4639	-58
Market Value/GDP	141%	58%	4523	-59
		Average	5312	-52%

Wait, is it possible that the Dow could return to its median valuation and price? Let me put it this way, it's not inevitable -- in time (and I mean it would require a lot of time) the medians could rise ever-closer to the current prices and valuations. But that's not likely -- the odds heavily favor that at some point the Dow will come down to meet the medians. To me, it's not really a case of "whether," it's a question of "when?"

The nature of markets is to **test the extremes** -- extremes of over-valuation and extremes of under-valuation. At this time, we can make a very convincing case that the market has been testing the extremes of over-valuation. Leuthold's statistics confirm the over-valuation thesis.

What could cause the stock market to test the opposite extreme -- under-valuation? That would require a series of events such as surging interest rates, a dollar swoon, a collapse in profits, a major war, a natural disaster (I could go on and on, your guess is as good as mine). But to test the extreme of under-valuation, it would also require a major collapse in consumer confidence (and

July 16 DJIA 11209.84; PTI 5384; A-D Ratio +4.10
July 23 DJIA 10910.96; PTI 5364; A-D Ratio +3.14
Dow Yield: 1.55%; Dow Price/Earnings: 27.2
Dow 144-day MA: 10190; Dow 34-day MA: 10900
Dow Times Book Value: 7.10; PTI 89-day exp. MA: 5355
Percentage of Undervalued Blue-chips: 4%
Gold 34-day MA: 259.6

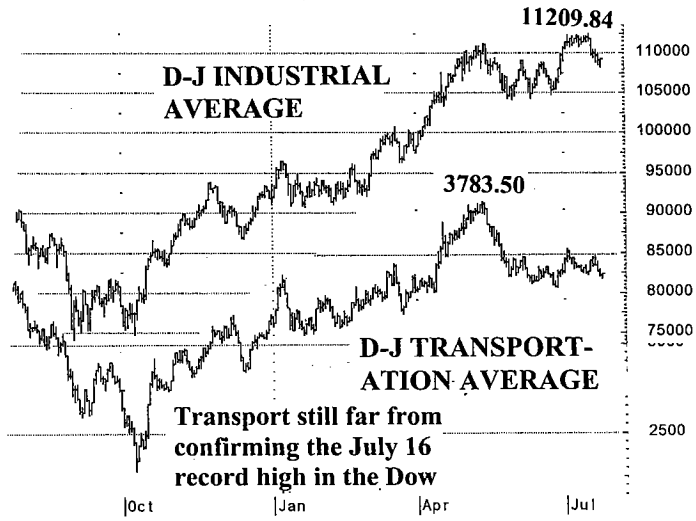
buying) and a move to gloom and disillusionment. That in turn would send the all-important price/earnings ratios down well below the medians. Of such are great bear markets made.

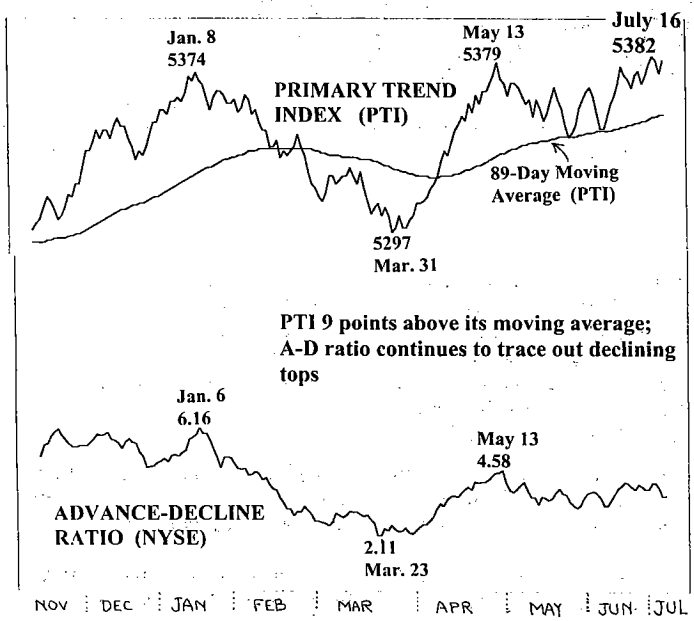
One irony is this -- as a market continues to out-perform, investors become increasingly bullish. In the latter stages of a major bull market, talk of a new era emerges (today it's "the new paradigm"), and it is widely held that bull and bear cycles have been eliminated. Often, some "hero" is credited with creating the new era. In the 1920s it was J. P. Morgan; today it's Alan Greenspan ("thank you Alan for being there for us").

Timing -- it's extremely difficult, if not impossible, to time the ending of a great bull market. I've often used this example: since 1982 the Dow has never closed below the low of a preceding year. That's an incredible span of 17 years of progressively higher Dows (no wonder the public is bullish). But logic tells us that with each passing year, the odds for this series continually grow slimmer. Trees don't grow to the sky, bull markets don't last forever, investor enthusiasm isn't eternal, and with each passing month we move nearer to the time when the tide will turn.

"Ah ha," sneers the perma-bull, "you could have said the same thing in every year of the '90s." Absolutely, correct, and that's why the procedure that I prefer is not prediction -- it's **identification.** Nobody on this planet knows whether the bull market will end this month, in a year from now or in five years. **My job is to attempt to identify when the bull is dying and when it has died.** As for forecasts and predictions, I don't trust mine or anyone else's.

What would have to happen to indicate that the tide had turned and that a bear market was in force? (1) If my Primary Trend Index was to turn down and break decisively below its 89-day





moving average, my suspicions would certainly be aroused. I would take such action to be extremely bearish. (2) If the Dow and the Transports both broke below their June lows, that would do it. If the June lows were violated by the two Averages, I would consider that a bear market was in progress.

GROWTH: The main reason price/earnings ratios are as high as they are today is that investors are pricing in projected growth of at least 15% and allowing nothing for risk premium. Consider the following: the earnings/yield on the Dow is currently 3.68 (earnings divided by price). In comparison, the yield on the "riskless" 10-year T-note is 5.70%. Normally, or historically, the Dow earnings/yield has been higher than the T-note yield. What has happened? Investors are now so bullish, so confident of rapid and persistent growth, that they have completely eliminated the risk premium, which is roughly the amount that the earnings/yield is ABOVE the yield on the 10-year T-note.

The extreme over-valuation of stocks is one of the main reasons why there is currently such intense emphasis on quarterly earnings. With stocks priced for growth of roughly 15%, if earnings on a given stock come in below "estimates," the stock often collapses. This, in turn, is the reason why corporations are placing such enormous emphasis on their quarterly earnings. It's all in an effort to boost their company's shares or at least keep their shares from falling.

I've related in a previous Letter how at analysts' meetings, companies often "talk down" their forthcoming earnings. Then when the actual earnings are announced, the earnings (surprise) will be "above analysts' estimates." The whole process has turned into a game -- bad-mouth your expected earnings, then announce "better-than-expected" earnings and (hopefully) watch your stock surge.

LATE TRENDS, THOUGHTS: The Internet stocks as a group are looking **weak.** Many are down one-third to a half from their highs. Worse, mighty Microsoft has a toppy look. If the net stocks (the most speculative sector of the market) collapse, it would hit consumer confidence hard . . . There's a good chance that the US economy will slow down between now and the end of the year. If so, it will catch the stock market with sky-high valuations . . . The dollar has suddenly been hit hard. Why? Is it the rotten trade balance? Don't know for sure, but it's sure that the dollar's being hit . . . Selected foreign stock markets now booming (will there be enough money for all of them and us?). Over the last three months: Thailand -- up 65%, Singapore -- up 36%, Japan -- up 11%, Hong Kong -- up 25%, Finland -- up 13%, Sweden -- up 16.4%, Mexico -- up 17%.

INVESTMENT POSITION: Because of the 15 months of price/breadth divergence, I'm very reluctant to put the bull in the box. But in he goes -- because the Averages are still holding above their June lows and the PTI is still in its bullish mode. But I'll go on record -- **I don't like this market.** And I strongly suggest great caution for my subscribers.

My instinct is always to go where the **values** are. OK, where are the values today? I think they're in fixed-income securities. Call me a contrarian. Everybody today wants capital gains and the hell with dividends. Pay 100 times revenues for a net stock that can't make a profit? Thanks, but no thanks. Me, I like dividends; I like CASH coming in.

But wait, with taxes running to 40% or 50% and with some inflation (although the government says there is none), is there any value in collecting government securities with guaranteed interest rates of around 6%? I think there is -- and this is the way I'm thinking. This bull market in stocks started in 1974, although some people are of the opinion that it started in the early 1980s. On a time basis, this is a very old bull market, the oldest in history. And I have to think that slowly but relentlessly, time is running out for this bull market. I believe the bull is getting tired.

If that's true, then somewhere ahead the economy is going to turn down. And if that happens, interest rates will be heading down. In fact, if or when the economy finally does turn down, stocks will be incredibly vulnerable -- vulnerable because valuations are now so absurdly high. Continuing this reasoning, I believe the Fed, in the face of a recession, would **panic** and bring rates down to as low as 3% in order to counteract a recession. Rationale: if the Fed was willing to flood the world with dollars in order to save Japan and Asia, what would it do if the US economy started to cave in?

Keeping all this in mind, I believe Treasury debt yielding near 6% is attractive here. If you buy these notes or bonds, at worst, you will be standing still, income-wise, with notes or bonds yielding near 6%. At best, you might garner large gains if the economy turns down.

On the opposite side of the ledger, if you buy **stocks** (which are largely dividend-less) here, you will be putting yourself in the position of hoping. Hoping for what? Hoping that your stocks will go higher and that somewhere ahead you will be able to collect capital gains. However, I feel that the risk/reward in buying stocks here is poor.

So what to do? I choose T-bills or notes, collecting the interest, and waiting for the inevitable downturn. This is where I believe the best risk-reward is.

COMPOUNDING IN REVERSE: I believe I have a collection of the smartest subscribers in the nation (and overseas). Subscribers know that I'm a "nut" on the power of compounding. Here's an e-mail I just received from R. M. in Sedona, AZ: "The reason the accumulated federal deficit is still going up despite the claimed federal budget surplus is because of the vaunted compounding that you talk about The federal deficit started compounding itself in about 1993, just a couple of years before the government claimed a balanced budget (in other words, the government missed the boat -- the government started compounding on itself before the government stopped adding to it actively). As a result, the total debt is still rising at a time when the annual budget is (nominally) in surplus. That is another 'end-of-the-superpower' indication, and is obviously unsustainable. The compounding is large enough so that the total

accumulated debt is still going up substantially even if part of the claimed budget surplus is being used to help cover the compounding. In other words, there is no way the problem can be 'fixed' any more.

"By the way, the fact that the Social Security Trust Fund is also being used to help cover the deficit also makes the situation totally unsustainable. In fact, I am of the belief that, in coming times, only people who are financially independent and understand what is going on (so they will know how to respond correctly) will be OK with certainty (will not need a job), will keep what they've got, and will maybe even add to it. Everyone else is going to be in a really sorry state of affairs."

Russell Comment: The current economic boom, the huge tax takes, and the current budget "surpluses" will not continue indefinitely. **But the compounding will.** When the next recession hits, the actual budget will go strongly negative, the compounding will continue -- and the deficit will explode. At that point, the government will frantically print money to cover the deficits. In the face of wholesale government printing, the dollar will tank, gold will (finally) surge, and all hell will break loose.

The federal debt is now $5.62 trillion, average interest is now 6.478%, meaning that the interest on the debt is now $364 billion a year and rising. Forget the surplus, this nation is now being eaten alive by a compounding of the national debt.

NOTES & QUOTES: With 3600 subscribers now on my Internet site, I'm now getting anywhere from 10 to 30 e-mails a day. Most of these are informative and highly interesting, and many ask questions. Sadly, I must confess, I just can't answer each one; it would take me at least a few hours a day, and I just haven't got the time or the energy. Please forgive me.

* *

The Consumer Price Index for June was unchanged, following an unchanged in May. This is the first time since the 1960s that there have been two successive months of "unchanged" in the CPI. Of course, those of us who live in the real world know that these statistics are bunk. I don't know anyone who isn't complaining that their cost-of-living is rising. Housing, rents, taxes, gasoline, schools, colleges, restaurants, you name it, the costs are going up. The US government, what's it smoking?

* *

One place inflation is NOT, is on the farms. Note this: corn is at its lowest level in 12 years, wheat at its lowest in 22 years, soybeans at a 27-year low. Hog farmers are in such bad shape that the government is giving them $100 million so they can hang on.

* *

Inflation? Deflation? This from "The Richebacher Letter" written by Dr. Kurt Richebacher [(888)737-9358]: "The US credit bubble is getting more and more pompous, but its effects are diminishing. Rising stock indices make the headlines, but the breadth of the market continues down. There comes a critical point where the most rampant credit creation is no longer enough to keep the economy and markets booming. Just consider that more than half the current US real GDP growth now comes from the computer makers. The underlying trend of the global economy is basically deflationary. Fears of inflation are misplaced. The true menace of the US and global economy is the inevitable bursting of the US bubble."

* *

This is the toughest year for kids to get into a top college in history. Universities like Harvard, Stanford, Berkeley are only accepting 13% to 15% out of thousands of applicants they receive. An awful lot of kids want to get into top-rated colleges -- a main reason is that it looks good on their resumes, and good resumes help in getting a job. Want a sure way of getting into a top college? Be an outstanding athlete. My son Ryan's girl-friend was an outstanding soccer player in high school. She was recruited by Berkeley among other top universities. She went through Berkeley on a full scholarship, all tuition paid. But it's a lot of work, soccer practice twice a day plus your studies. Son Ryan was recruited to Berkeley based on his water polo prowess. He wants to be a landscape architect. Funny, I thought he'd be interested in the stock market. Wrong, Russell, wrong.

* *

The July 12 *WSJ* contained two major sections on the Internet. What did I get out of it? Nothing particularly new, but I thought the gist of it was that net competition is brutal, and that it's going to be very tough on standard retail stores. For myself, I wonder how long it will be before manufacturers (including book publishers) cut out their normal retail vendors and sell directly to the public. In other words, we could be moving towards the day of the manufacturer and the consumer, and it's bye-bye to the retailer, travel agent, broker, middle-man, etc.

* *

Are you PC-phobic? Then check the new "iToaster." This is a little machine made by Microworkz.com out of Seattle. The iToaster turns on immediately (no booting). With it you can do word-processing, spread-sheets or surf the web, and it works either with a monitor or through your TV. The iToaster doesn't use Microsoft's Windows operating system, it uses its own software. The iToaster sells for $199 and it has an internet-connection plan that costs $19.95 a month. The iToaster is free if you sign up for two years of Internet service. Why is it called the iToaster? Because it's supposed to be as easy to use as your kitchen toaster. Check your local computer store or www.microworkz.com for more info.

* *

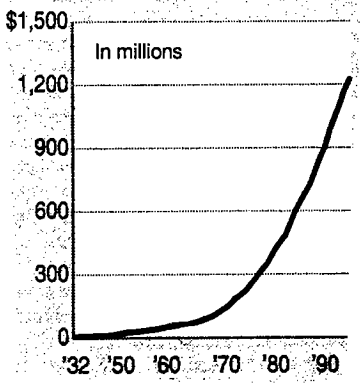
Speaking of communication and new trends, think of the implications of the following: the tiny nation of Qatar is now broadcasting (by TV) real, honest news -- around the clock. This emirate in the Gulf has millions of Arabs in 22 nations listening for the first time to what's actually happening (uncensored) in the world. Writes the *International Herald Tribune,* "In Algiers' Casbah, in Cairo's slums, in the suburbs of Damascus, in the desert tents of the Bedouins, with satellite dishes, the channel has become a way of life. Even where Al Jazeera cannot be seen live, in countries like Iraq that bans satellite dishes, videos of its shows are traded eagerly in bazaars. Said Dale Eichelmlan, a Dartmouth professor who recently visited Al Jazeera's studio in Doha, 'The days have gone when Arab governments can control what their people know, and what they think.'" **Russell Comment:** Knowledge and awareness is dynamite, as the former rulers of the Soviets found out. I expect huge changes in the Arab nations, particularly in the lives of Arab women. Democracy -- it's sweeping the world along with free trade. The times, they are a'changin'.

* *

Governments may not be able to stifle the truth about what's happening in the world, but governments are still extremely skillful at extracting people's earnings. This chart shows what the US government and the state governments are taking from their passive citizens. In the 1920s the government took one out of every 20 dollars the economy produced. Today the government takes one out of every five dollars the economy produces. Taxes are now the single biggest expense for American families, outpacing the costs of housing, food and clothing. The average US family now pays out four out of every ten dollars it earns in taxes. And today an increasing number of mothers must leave their kids and go to work, all in an effort to keep up their standard of living. To me, the current level of taxes is an outrage. Writes Steve Forbes in the current issue of *Forbes* magazine, "Since 1993 federal tax receipts have

Government's Greed

The amount federal and state governments take in revenues has exploded



grown 52% faster than personal income. Last year federal revenues grew 80% faster than the income of the American people. The government's greed is profoundly wrong." **Russell Comment:** People are passive, and they continue to vote for the same old tired politicians. Steve Forbes advocates a flat tax which would greatly reduce what the average family pays (Forbes, to my mind, is the brightest of the presidential candidates, but he's given little chance to win). Sadly, voters remain passive, continuing to pick their presidents on the basis of looks, height, sex appeal (the tallest presidential candidate usually wins). Chart courtesy of *Investors' Business Daily*.

* *

How about them Internet stocks? Old friend Charles Allmon (*New Issue Digest*, PO Box 15381, Chevy Chase, MD 20825) writes about the wild pricing of many Internet stocks. He also points to Priceline.com, noting that in the year ending December '98, losses were three times larger than revenues. Allmon notes that Priceline.com's share price rocketed 331% on opening day -- from 16 to 69. PCLN rose to a high of 165 on April 30, then crashed to a low of 74 on June 15, next rallied to 119 on June 22, and is currently selling at 80. Critical next support is at 75. **Russell Comment:** Based on what I see on the charts, it would not surprise me to see a forthcoming **panic** out of most Internet stocks. Just too many costly collapses.

* *

Do you believe that "the answer lies in the stars?" Arch Crawford [*Crawford Perspectives*, (520)577-1158] is an expert astrologist as well as an excellent market technician. And he's made some great calls in the past. What he sees coming up during the next few months, he calls "major instability." First Arch talks about some of his accurate calls of the past such as calling the top day of the "October 1979 massacre" and the high day prior to the 1987 crash. But says Arch, "The next 60 days will make all these look like a walk in the park!! Never, ever, have we observed combination after deadly combination culminating one after another in a truly apocalyptic sequence . .

Although the sequence has already begun building, it can be observed openly by July 18, and even the dull-witted will come aware by July 21 . . . August 11, 1999! This is the big one, the mother of all Solar Eclipses . . . The greatest after-shocks are triggered with the formation of a second Grand Cross on August 16-17 involving Jupiter, Neptune, Mercury and Moon. How many thousands of years since we have encountered a double Grand Cross? . . . Further powerful astronomic hits on August 24, 26 and 29 add to the general chaos of this period!" **Russell Comment:** I've never heard Arch talk this way. Gad, suppose he's right!!!!! **Fact:** On August 11, much of Europe will be plunged into blackness as a total eclipse of the sun will hit. Writes the *International Herald Tribune,* the eclipse will "possibly induce a touch of collective madness . . . The so-called millennium eclipse will be seen by more people than any such phenomenon in history as it crosses densely populated areas in Europe, the Middle East and the Indian subcontinent." Cornwall in Britain expects 1.5 million visitors as they watch the first total eclipse to be seen in Britain in 72 years. Authorities are worried about food and water shortages and a host of illegal rave parties by New Agers.

* *

Remember Fed Chairman Paul Volcker? Here's what he said on May 18: "The economy of the world is dependent on the US stock market. The US stock market is dependent on 50 stocks, half of which had no earnings."

* *

From *Forbes*, July 26. The magazine quotes Morgan Stanley's Mary Meeker, high priestess of the Internet analysts: "The old rule in the '80s was that a company needed three quarters of profitability to show a rising trend" before trying a public stock offering. Not now. She tells companies to act "rationally reckless," to use capital markets as a tool and proceed "as though they have nothing -- and yet everything -- to lose." The article continues, "In 1997, 16 Internet companies went public and even now only 3 can boast a profitable quarter. In the first half of this year, 57 net firms did IPOs. Only 2 have seen profits. 'Are we in a bubble,' asks Meeker? 'No,' she says. The next trend -- businesses selling Internet-based services to other businesses -- will dwarf the revenues of the past four years. But the instant home-runs are dwindling. All but one of the 16 companies in vintage 1997 sell above their opening day closes."

Russell Comment: The net revenue will be huge, but I keep wondering about the profits or at least profits that will even begin to justify today's prices. So far, who's making the money on the Internet phenomenon? The infrastructure companies -- Cisco, Intel, Broadcom -- just as Levi Strauss and the sellers of pots and pans made the money during the California gold rush.

* *

This from syndicated columnist Robert J. Samuelson: "What mainly explains why the two decades (1980s and 1990s) are treated so differently is political fashion. The scribbling and chattering class -- reporters, editors, commentators, academics and the arbiters of public taste -- generally disparaged the 1980s and have embraced the 1990s. Their biases may partly reflect personal experience. The press and academia are middle and upper-middle class institutions, many of whose members have doubtlessly profited handsomely from the stock market boom.

Having discovered their own inner greed, they may condemn it less in others. There's also the high-tech factor. Wealth from computers seems more progressive than from real estate or oil. But the main source of bias is political. By and large, reporters and editors are liberal and Democratic; so too is much of academia. The notion that the country turned 'greedy' in the 1980s fits their world view. In 1980 and 1984 Americans elected Ronald Reagan. That Americans anointed him meant that they had become more selfish."

* *

New World: Microsoft is valued in the market at a bit over $500 billion. This is more than the combined market value of Exxon, Merck and Proctor and Gamble. America Online has a market value of $130 billion. This is more than the combined value of all listed newspapers. Is it a bubble? I think so.

* *

John Kenneth Galbraith, the famous economist who wrote the book on the 1929 crash, was asked whether he thought the 1990s are different than the 1960s. He answered, "There is no comparison. We have a much greater speculative bulge than in the '60s. Prices are going up, so people buy. That justifies the expectation, so they buy more. It's a classic bubble."

Standard & Poor's disagrees. They start their July 14 issue of their weekly publication, *The Outlook*, "We see no indication that the demand for stocks is about to diminish, despite generous valuations and higher interest rates."

* *

A new book, "Devil Take the Foremost, a History of Financial Speculation," by Edward Chancellor, is reviewed in the July 18 *NY Times*. From the review: "Day traders, using the Internet, swap Internet stocks at higher prices. A brand new Internet company specializing in auctioning airline tickets for flights about to depart, appropriately discounted, and the market gives it a greater value than American, United and Delta, proprietors of the flights themselves. The lads who designed my own Web site in a SoHo loft celebrated their 30th birthdays planning a public offering of their company, and now, scarcely a year later, still losing money, their company has a market value of a billion dollars. Within living memory, a billion dollars was real money. We can see why, if not when, our own trillion-dollar bubble will pop. Even though the Internet itself will grow as a mighty force, if the market will give a billion-dollar value to a two-year-old company losing money, then the efforts of a diligent populace will be put to creating such companies until the supply of those companies overwhelms the demand for them. We read these histories and we know the ending. Yet such is the intensity and excitement of manias that they never lack participants."

* *

Just received a letter from a 90-year old subscriber. This gentleman writes, "I now have a web-TV box on my TV set and now receive 'net news.'" He also accesses my daily market

page. If he can do it, you can, too. So c'mon, subscribers who are afraid to get on the net. Go to my website at www.dowtheoryletters.com, click on the phrase WebSignUp, fill out the form, and you'll be on your way.

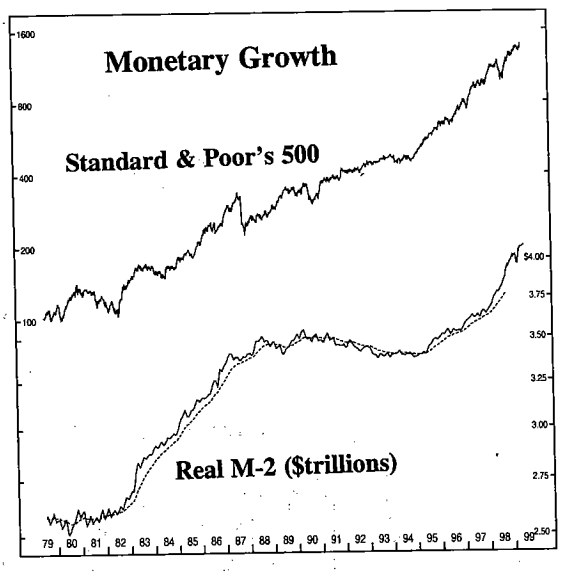
* *

San Diego's MP3 made headlines here when its zooming IPO gave the little company a market value of about $6.9 billion dollars. MP3 is the most popular web site for people seeking music to download free or nearly free. The company which provides little-known music had $700,000 in sales for the first three months, the bulk of the money coming from ads. A total of 13 million shares had an initial price of $28 but shot up over $100 before settling in the $60s. CEO Michael Robertson became a billionaire at age 32 based on the market price. Said Mark Hardie of Forrester Research, "They are the beneficiary of the right name, the right dot.com address and the right time. The marketplace is heated with theoretical expectations." **Russell Comment:** The market is heated with greed and sheer stupidity.

* *

INFLATION/DEFLATION: What are the markets telling us? On the face of it, one can detect hints of deflation. Deflation? How is that possible with the US money supply surging week after week, month after month? Answer -- it could be that here in 1999 there is so little pricing power, such vicious competition, and so much debt, that the net result is deflation. Deflation, real deflation -- it's a phenomenon that Americans haven't dealt with since the 1930s.

The irony is that what's happening is occurring in the face of continued Fed pumping. This chart [courtesy of *Market Logic*, (800)442-9000] shows the M-2 money supply (a broad-based measure including checking accounts, currency, savings accounts, small-time deposits and even retail money market funds). Note that the M-2 depicted on this chart is adjusted for inflation. Is it possible that the Fed is not now pumping enough? The Fed has been sending the money supply surging on the thesis that it's America's job to hold up the world. The US market is the market of last resort; it's the market that everyone sells to. Without the US market, without a surging money supply, reasons the Fed, the world would sink into depression.



* *

Chelation: The following is from a front-page article in the June 22 *WSJ:* "Says James Hinton, chief exec. of Presbyterian Health Services, Albuquerque, 'The money in medicine is in cardiac surgery. Cardiology is unquestionably profitable. That's what (the hospitals) are going after'. . . The tab for treating ailing hearts approaches $200 billion a year in the US, about 20% of the health-care economy. With roughly 15 million Americans suffering from heart disease and tens of millions more burdened by high blood pressure or high cholesterol, treating hearts has become an industry. More than 1,000 US hospitals offer full-service heart programs. They typically account for more than 20% of a hospital's revenue and sometimes 50% of profits, supporting less lucrative endeavors. 'Hearts are what keep hospitals in business,' says LA health consultant Jacque Sokolov."

After a heart attack, a quintuple by-pass, a stent placed in one of the grafts that closed, and many months of sporadic angina attacks, I was becoming an "amateur expert" on heart problems. And I was getting damned tired of surgery. I had read about something, so I decided to try it. I'm talking about a treatment called chelation (key-lation). Chelation involves intra-venous infusions of a chemical called EDTA. (There's no patent on EDTA, so there's no money in it for drug companies.) After 30 treatments my angina lessened considerably. After 50 treatments my angina about disappeared. Furthermore, I haven't had any heart trouble for years. On the basis of what I have personally learned and experienced, I suggest that all my subscribers learn about chelation (www.chelation.com). The reason: I'm convinced that it works.

If it works, then why the hell don't the medical fraternity or the American Heart Assoc. or the federal government or the insurance companies get into it? Why do medical associations in various states try to prevent chelation treatments? Answer: Because you're asking them to test chelation and maybe jeopardize all the money and profits you read about in the first paragraph. Happily, my subscribers don't have to swallow the BS that the medical fraternity and the FDA puts out about chelation. My subscribers can read the literature; they can try chelation (but don't tell your cardiologist). You can find out for yourself -- something I urge you to do if you even suspect that you have or ever will have heart trouble.

In my 75 years on this earth I found that the **two hardest things to do** are **(1)** to get anyone to do what they say they will do, and **(2)** to get the correct information about any subject. When it comes to heart trouble, I think number (2) is the winner.

Doctors: I grew up in the "age of physicians as gods." After all, these gentlemen and ladies spend four years in college, another four years in med school, then more time as interns and still more time (and money) for specialties such as surgery, radiology, etc. After all that, they usually owe tons of money -- and then on to practice. Doctoring was a good, steady living and you were dedicated to your work, which was basically helping people. But docs are human and they make mistakes. Americans, who love to sue, sued them, and the huge verdicts came in. The whopping verdicts boosted the cost of malpractice suits -- up and up until the costs became astronomical. Many doctors said, "The hell with it" and quit. Next, as if the situation wasn't bad enough, came managed care. The managed care outfits wanted to make a profit. So they controlled costs. And they instituted new rules and practices. That meant that doctors couldn't treat patients the way they wanted, they had to treat them according to what the insurance company approved of. Treatments were cut short. Patients were hustled out of hospitals before the doctors thought they were ready. Accountants began to take over in medicine. Finally, the doctors decided that they couldn't take it anymore. So what did they do about it? They began to form **unions. What, doctors' unions? That's right.** And it seems to me that the battles are coming. The battles for doctors to be able to act like doctors again.

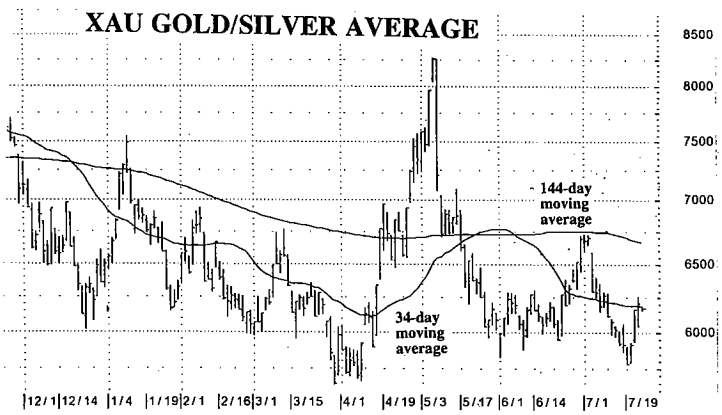
Y2K: The debate goes on and on as to how much or how little Y2K will affect the economy. The fact is that some companies end their fiscal year in July. July has passed and so far not a ripple. But no question about it, the real test will come on January 1 and thereafter. Edward Yardeni, managing director of Deutsche Bank Securities, should probably be called "Mr. Y2K." Yardeni was one of the first to warn of potential Y2K trouble. In a recent interview Yardeni said, "The Y2K problem poses such a serious threat to the global economy that I believe

there is a 70% chance it will trigger a worldwide recession that would start January and last for 12 months." Asked why he expected such a violent impact, Yardeni answered, "Because it could disrupt the flow of vital global resources. In 1973-74 the vital resource that was shut off, triggering recession, was oil. This time it will be information. If the Y2K computer bug disrupts the flow of information around the world, some important economic activities could be impaired, if not entirely halted. I'm less concerned than I was a year ago about the readiness of the US government for Y2K. I'm also more optimistic that the electric power grid, the air transport system and the banking system will hold up. But I'm concerned about serious disruptions to the flow of manufactured goods worldwide -- because so many countries are slow to fix the computer systems."

GOLD: Let's forget all the political and social arguments about the "whys" and "wherefores" of gold, and let's just stick with what the market is telling us. There's no question that the gold shares have acted better than the metal. So let's study the action of XAU, the Phila. Gold/Silver Average. I also show the 34-day moving average and the 144-day moving average. At present the 34-day MA is situated below the 144-day moving average, which is the bearish mode.

As for price action, the extreme low for XAU was struck on August 31 at 48.66. XAU hasn't been back there since, which is a hopeful sign. After a rally, XAU declined to a low of 57.79 on July 19. This was happily above the August 31 low.

From here, the upside targets are clear enough. The first target would be to rally above 62, which is where the 34-day moving average sits The second and more important target is to rally above the July peak high at 67.23. A rally above 67.23 would also take XAU above its 144-day MA at 66.70. So that's it -- rally above **67.23** or break to a new low below the July 19 low of **57.79**.



LATE NOTES, OBSERVATIONS: The two biggest industries in the US are housing and autos. All three auto stocks, Daimler, GM and Ford, are now below their 200-day moving averages (GM broke below its MA on Thursday, July 22). That hardly bodes well for the auto industry.

The largest builder in the nation is Kaufman & Broad. KBH is now well below its 200-day MA. Lumber is in a perfect head-and-shoulders top. What are these two telling us? They're telling me that the housing industry is in trouble.

Is this nation ready for a decline in its two biggest industries? It would not surprise me to see the nation moving toward or into recession by the end of the year.

The wildly speculative area of the market has been the Internet stocks. IIX, the Internet Average, hit its high on April 13 at 369.07. IIX as this is written is at 290, 21% below its high. The chart looks suspicious to me, but the level I'm watching is 255, the level of the mid-June low. If IIX breaks below 255, I'd say that the speculative back of the net stock mania has been broken. It hasn't happened yet, but I'm watching it.

There are two very KEY stocks that are worth watching here. They are MSFT and GE. Many of the funds are loaded with these two babies, and you can bet your bottom dollar that they don't want them to top out. I put 89 as an important support level for MSFT and 114 as an important level for GE. Watch these two, their capitalization is huge, and they are critical stocks in this market.

America Online (AOL) is a key Internet stock, since it's a huge factor on the net and it's a stock that's actually making money (instead of the usual losses). There are two levels I'm watching on AOL, the psychological 100 level and the level of the 200-day MA at 94. Keep your eye on this one.

My four key bellwether stocks are GM, GE, MSFT and MER. Merrill has bearishly broken below its 200-day MA which now stands at 77. Net support comes in at 71. Below 71 and MER heads for its low at 66. Watch the action on MER. Talking of brokers, we should also watch mighty Schwab (SCH claims it is the broker-king of the net). Key support for SCH comes in at 40.

NEXT MAILING: Aug. 11, 1999